

6. The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey

Zeyno Baran

Despite enjoying the myriad benefits of its strategic location – at the crossroads of Western Europe, Russia, the Caucasus and the Middle East – and of its significant mineral reserves and its young, dynamic population, Turkey is yet faced with a serious long-term strategic threat: energy dependence. Lacking major oil and gas reserves of its own, Turkey is nearly 65% dependent on imported energy supplies. Worse, this figure is expected to increase to 75% over the course of the next two decades. In order to contend with this growing threat, over the last decade Turkish policymakers have wisely chosen to take full advantage of their strategic location. Recognizing that control of energy transport corridors can be almost as important as control of energy supplies, they turned their attention towards one of the most important projects that Turkey has ever undertaken: the Baku-Tbilisi-Ceyhan (BTC) oil pipeline.

The pipeline, which will transport up to 50 million tons per year starting at the end of 2005, runs from the Azerbaijani capital on the Caspian Sea, up through Georgia, and down to the Turkish Mediterranean port of Ceyhan. Together with a parallel gas pipeline, it is undoubtedly the key link in the so-called “East-West Transportation Corridor” planned by Turkish and other government officials to connect the oil and gas fields of Central Asia and the South Caucasus with the markets of Western Europe.

For Turkey, the BTC pipeline project has from the start been seen as a project primarily of geopolitical importance. In fact, the issue of direct economic benefits to Turkey was barely even mentioned in the initial discussions. Despite the absence of strong economic arguments in favor of the project, the strategic and security advantages of BTC were widely recognized by the public. In turn the BTC pipeline was greatly supported by majority of the Turks and has encountered no perceptible political opposition.

This essay briefly discusses the geopolitical relevance of BTC for Turkey, including an overview of how and why Turkish decision-makers ensured its commercial viability. It then evaluates the prospects for direct and indirect

economic and social benefits to Turkey of the BTC project, before in the end addressing the impact of the BTC project on Turkey's relations with various players in the region as well as the EU and the U.S.

Geopolitical Pipeline

By the early 1990s, a consensus had emerged in Turkey regarding the necessity of constructing a major new oil pipeline on the East-West route. It did so for several reasons: first, following the Gulf War, the Kirkuk-Yumurtalik pipeline that had been transporting Iraqi oil to the Turkish Mediterranean port of Ceyhan was closed in August 1990 under UN Security Council resolution 661.¹ As a result, the Turkish economy suffered hugely from the loss of revenues. Realizing that the Ceyhan port, controlled by the state-owned pipeline company BOTAS, is a world-class facility at which large tankers can easily and efficiently load cargo and transport it to world markets, Turkey has long wanted Ceyhan to eventually turn into a major international oil hub.

The second reason was based on a realization that the potential value of Central Asian and Caspian oil reserves would be tremendously greater if Western consumers were to have access to them. Without a safe and secure route out of the landlocked Caspian Sea, these reserves have little value. With that safe and secure route terminating in Ceyhan, Turkey would also receive enormous leverage in the region.

A third and related reason was that, as a NATO ally and strategic partner of the United States and Western Europe, Turkey believed that it was best suited to enjoy such leverage. Unlike competing potential suppliers such as Iran and Russia, a Turkish partnership with the newly independent states would help to cement their future integration into regional and international institutions—and also increase Turkey's strategic importance. Indeed, this project has during the last decade been the anchor in U.S.-Turkey relations as well as the key glue of the Turkey-Azerbaijan-Georgia trilateral partnership.

As suggested, Turkey was not the only state whose thinking was rooted primarily in geopolitics. The Russian government pushed for the entirety of Azerbaijani and Kazakh oil production to be sent to markets via Russian networks (whether existing or newly-created) so that it maintained its monopoly over these countries' political and economic futures. For its part, Iran hoped to use its geographic location (the route across Iran to the Persian Gulf is the shortest distance to open waters from the Caspian) to achieve its geopolitical goal of greater influence over

¹ The Iraq-Turkey pipeline was only partially reopened in 1996, and returned to full capacity only in 2000. It has been shut down since 2003 due to regular attacks on the pipeline.

its northern neighbor. The young states were too weak to on their own resist the pressure and the temptation these two oil-producing countries offered.

At the same time, they knew that shipping their oil to markets via countries that themselves had huge oil fields would not provide them with long term energy security. Hence, the leaders of Azerbaijan and Kazakhstan decided that a routing through a non-oil-producing, NATO member country would provide them with the best long-term energy security. However, even with this decision, only direct, high-level U.S. involvement ensured that the BTC pipeline would work for Azerbaijan. As explained below, the Kazakhs chose the Caspian Pipeline Consortium (CPC) as their first major pipeline to carry Kazakh oil via Russia to the Black Sea, and Kazakhstan is currently in serious negotiations to send significant volumes of oil from Aktau to the BTC pipeline.

The decision of whether or not to invest in the BTC ultimately had to be reached by the oil companies operating the Azeri-Chirag-Guneshli (ACG) field in Azerbaijan. The Azerbaijani International Operating Company (AIOC) consortium clearly preferred the cheapest option for exporting oil to the markets and initially balked at the cost of the BTC, especially when they considered the shorter Baku-Supsa option.² This would entail the construction of a relatively short pipeline from Baku to the Georgian Black Sea port of Supsa, where the oil would be loaded onto tankers and then transported via the Turkish Straits to world markets. Turkey had initially promoted this route also, believing that any East-West option was preferable to shipment north to Russia or south to Iran. They hoped that once companies were accustomed to shipping oil westwards, it would then be easier to subsequently shift supplies to a BTC pipeline.

In 1995 the AIOC consortium chose Baku-Supsa as well as the Baku-Novorossiysk route (that would transport Azerbaijani oil to the Russian Black Sea port of Novorossiysk) as “Early Oil” pipelines to transport initial production to markets, thus satisfying both Russian and Turkish interests as well as their own commercial ones. The U.S. became actively engaged in the pipeline projects following the celebration of the beginning of the Early Oil project in Baku in November 1997, attended by the U.S. Energy Secretary as well as the Turkish and Russian prime ministers. The presence of such high-level officials clearly underlined the geopolitical importance of the projects.

Once these two shorter pipelines began operation, the Turkish Foreign Ministry began to strongly promote the BTC pipeline. One of Ankara’s key arguments in favor of the rapid construction of the main BTC pipeline was based on the logistical, environmental, and security problems raised by a dramatic increase in

² The AIOC’s first preference was to construct a pipeline from Azerbaijan to Iran, but the sanctions on Iran and tense Azerbaijan-Iran relations ruled out this option.

traffic through the Turkish Straits. With additional oil coming to the Black Sea from these two pipelines, as well as from the CPC pipeline, the narrow and overcrowded Turkish Straits linking the Black Sea and the Mediterranean would be clogged by increased tanker traffic—at levels which would eventually become unsustainable. In addition to the environmental health and security of the Straits themselves, the physical security of Istanbul, a city of close to 15 million people and of incomparable world cultural heritage, could be damaged in case of a major accident. The BTC pipeline would provide an alternative to transporting large amounts of crude oil through the Turkish Straits, and most importantly, directly through the heart of this huge city poised on both sides of the Bosphorus. BTC would bypass this choke point, delivering oil directly to a safe, deep-sea port.

Hence, the Turkish approach was to consider the Turkish Straits not solely as a transportation corridor, but rather as a highly sensitive lifeline of Istanbul and the Black Sea region. The companies, on the other hand, considered the Straits to be commercially the cheapest option as opposed to pipelines for the transportation of Caspian oil. It took several more years for the companies internalize the risks associated with the Straits and recognize that the BTC pipeline was in the long term commercially a more sustainable option.

The BTC pipeline project gained momentum following the October 29, 1998 Ankara Declaration by Azerbaijan's Heydar Aliyev, Georgia's Eduard Shevardnadze, Kazakhstan's Nursultan Nazarbayev, Turkey's Suleyman Demirel and Uzbekistan's Islam Karimov, witnessed by then-U.S. Energy Secretary Bill Richardson. This declaration, which expressed strong support for the BTC main pipeline, was notable most especially because of Kazakhstan's participation. It was important because, at the time, it was unclear whether there was sufficient oil in Azerbaijan to justify a major new pipeline. (Today, such fears have been revealed as unwarranted—in fact, in order to accommodate eventual Kazakh participation over the next decade, the pipeline may need to be expanded.) For Turkey, the extension of the oil pipeline to Kazakhstan also meant that Ankara would have an important connection to Kazakhstan. (A second part of the Ankara declaration was support for the Turkmenistan-Caspian-Caucasus-Turkey-Europe gas pipeline project to enable Turkey to diversify its gas supply and turn itself into a major gas hub and transit country for European markets.)

Despite the political support behind the BTC project and the increasing understanding of the danger of the Bosphorus chokepoint, the oil companies remained reluctant. They needed commercial incentives to commit to a complicated pipeline project that would cross three countries with various economic and political difficulties. They were relieved when the Baku-Supsa pipeline became operational without incident in April 1999, marking the completion of the first non-Russian East-West pipeline. After BP completed its acquisition of

Amoco in April 1998, it became the principal operator of the AIOC consortium—simplifying operations, as political leaders only had one main company to deal with. The strong commitment of the three countries to make the BTC pipeline commercially viable, as well as the continued close participation of the United States, played a huge role in the companies' final positive decision.

The Turkish government realized that, in order to convince the companies to agree to the pipeline, it needed to make serious concessions, especially a guarantee of coverage for cost overruns. While the Turkish section of the BTC, like the other sections, would be fully financed by the BTC investors, given that the pipeline is longest in Turkey (of the pipeline's 1,768 km, the Turkish section is 1,076 km in length), and that BOTAS was to be the turnkey contractor, Turkish concessions were key to make the project work.

After several months of negotiations, the intergovernmental agreement in support of the BTC pipeline was signed by Azerbaijan, Georgia, and Turkey on November 18, 1999, during the OSCE Summit in Istanbul. In addition, there were three Host Government Agreements (HGAs) supporting BTC investors in Azerbaijan, Georgia and Turkey, as well as a Fixed Price Lump Sum Turnkey Agreement and a Turkish Government Guarantee for the Turkish section of the pipeline. At the same summit presidents of Azerbaijan, Georgia, Turkey and Kazakhstan signed the Istanbul Declaration in further support of the BTC. President Bill Clinton of the U.S. witnessed the ceremony and later said that the completion of these agreements was one of his “most important foreign policy achievements of 1999”.

Indeed, these agreements provided the political and commercial reassurance necessary for oil companies to take BTC seriously as it committed the governments to ensure that oil out of the Caspian Sea would be developed and transported along commercially viable, secure and environmentally safe routes in a timely manner. The IGA signaled the support of three governments for the project, ensured commercial terms for work in the countries, provided for the application of European-quality environmental and technical standards, and obliged each state to provide security for the project. The HGAs are more specific agreements reached between individual governments and the project investors to provide uniformity and consistency across the three countries in technical, environmental, safety and security standards. These agreements clearly placed regional cooperation ahead of extracting maximum commercial terms for each individual country, further underlining the importance of the BTC project to all three countries.

In the Turkish case, since BOTAS was for the first time going to be a turnkey contractor, the HGA also included the Turkish government's assurance to the investors on its performance. On October 19, 2000, the MEP participants signed the Turnkey Agreement with BOTAS that assigned it responsibility as the turnkey

contractor for the engineering, design and construction of the Turkish section of the BTC pipeline. The Turnkey Agreement is a lump-sum fixed price contract, and contains a \$300 million Turkish government guarantee of compensation for investors in case of a cost overrun.

After these important agreements, studies were completed and financing was arranged, enabling construction to begin in 2002 in time for the first tanker to be loaded from Ceyhan in the fall of 2005.

As this brief background makes clear, the BTC project cannot be considered just as a commercial project, but is a key part of a broad vision for Turkey and its regional allies.

Economic Impact

The BTC pipeline was conceived and promoted by Turkey mainly for geopolitical reasons, with economic arguments largely absent from the decision-making process. Nevertheless, for Turkey the long-term economic outlook for BTC is positive; over the full 40-year term of the project, the economic benefits will gradually become visible.

Relative to the size of its GDP, the direct revenue that Turkey will receive from the project is admittedly small and is certainly not comparable to the impact it will have on the public finances of Azerbaijan and Georgia. Turkey is expected to receive between \$140 and \$200 million annually from transit and operating fees after the pipeline begins operation. However, this amount is guaranteed to increase after 16 years, to between \$200 and \$300 million per year. As shown in the table below, these fees are based upon the amount of oil transported. The maximum amounts are based on the pipeline's maximum capacity of 50 million metric tons per annum (MTA), which is approximately 1 million barrels per day.

Transit and operating fees payable to Turkey:

Years 1 – 16:		Years 17-40:	
35 MTA	\$140 million	35 MTA	\$204 million
40 MTA	\$160 million	40 MTA	\$234 million
45 MTA	\$180 million	45 MTA	\$263 million
50 MTA	\$200 million	50 MTA	\$292 million

Even at \$300 million per year, however, these revenues will be relatively insignificant. For a \$300 billion economy that recorded a 10% growth rate in 2004,

this revenue may barely register. In order to draw a more complete picture of the economic impact of BTC on Turkey, however, one must look beyond transit revenues. The Turkish national oil and gas company TPAO has a 6.5% share in the BTC pipeline and will also receive additional revenue from its investment. In addition to what BOTAS estimates will be an inflow of \$1.4 billion in foreign capital, there will also be employment and other economic benefits from the construction and operation of the pipeline.

In fact, the construction of the BTC pipeline has had a very positive impact on unemployment. According to BOTAS figures, BTC employed over 5,000 people during construction. This is an important figure given high unemployment numbers in the eastern and southeastern parts of Turkey. Furthermore, 400 full-time positions will be retained once operations begin. In addition to direct employment, the construction and operation of the pipeline have stimulated the creation of jobs in support industries, as well as in the general economy.

A further long-term economic benefit will be infrastructure improvements. According to World Bank estimates, BOTAS is likely to generate significant profits. If invested wisely, these funds can turn BOTAS into a world-class pipeline operator, increasing its chances for participation in future major pipeline projects. Furthermore, the process of constructing and operating the pipeline will greatly improve the technological capability and know-how both of BOTAS and of other Turkish contractors, who for the first time ever are completing a project in full compliance with the highest international environmental, health, and security standards. They are likely to transfer this knowledge to many other domestic projects in the future.

The work has also thus far complied with international norms against corruption. As the single-most-scrutinized public-private partnership to date in Turkey, it has set a new standard. In the words of the BOTAS leadership, "This is the single most challenging project done by BOTAS: and we have done it for the most demanding client [BP] in the world." While corruption has been endemic to the Turkish energy sector, there are no serious reasons to doubt that the work of the BTC project has been carried out transparently and professionally.

One very important element of BTC for the broader Turkish economy will be the ability to purchase crude oil at a lower price thanks to reduced transportation costs. When the maximum capacity of 50 million tons per annum is reached, Turkey plans to purchase up to 20 million tons of oil for domestic consumption. It also plans to increase its strategic petroleum reserve capacity, which amplifies the value of BTC to supply security and price stability in the country.

Environmental and Social Impact

The BTC partners have conducted a detailed Environmental and Social Impact Assessment (ESIA) in accordance with the requirements of international financial institutions. Together with BOTAS, they tried to follow these guidelines as closely as possible, thus reducing any serious negative impact. In environmental terms, on balance BTC will be a net contributor to environmental health, since it reduces the volume of oil transiting the Turkish Straits, as mentioned above. The BTC companies have also made significant investments, as required by the World Bank and other international financial institutions, to ensure that the BTC pipeline is constructed with the “best available” environmentally-friendly technologies. Unlike other pipelines in Turkey, the BTC pipeline is buried, in part to minimize environmental damage. The project partners have also engaged in regular consultations with NGOs and with the local population. These meetings have served to increase local residents’ awareness of environmentally sensitive issues that many had not considered before. This has, in turn, increased their commitment to protect their environmentally sensitive areas.

The key agreements and significant documents on local impact are available at the “Caspian Development and Export” website. This level of disclosure has made the BTC project the most transparent pipeline to date.³ Since the posting of these critical documents in 2000, local and international NGOs have been able to study these documents and question the BTC Corporation, the Turkish government, and BOTAS when necessary. This level of openness has ensured that the project will maintain local support for the next four decades.

To promote sustainable social and economic development within the communities affected by the pipeline’s construction, the BTC Corporation established a Community Investment Program (CIP) focusing on sustainable development, particularly agriculture. The CIP has allocated approximately \$9 million for social and economic development along the pipeline’s route in Turkey. This is a much-needed investment in one of Turkey’s least developed regions.

The BTC pipeline has ironically also helped Turkey to deal effectively with international human rights NGOs who have tried to prevent the project on grounds of potential impact on Kurdish human rights. Following the war against the Kurdish PKK terrorist organization in Turkey, many human rights organizations have characterized the Turkish state’s human rights record, especially regarding its Kurdish citizens, as rather dismal. After the prospect emerged of a major oil pipeline crossing ethnically-Kurdish parts of Turkey, these

³ <http://www.caspiandevlopmentandexport.com>. See David Blatchford’s chapter in this volume for a detailed discussion of this issue.

organizations immediately assumed that Turkish security forces would violate Kurdish human rights under the pretext of “pipeline security”.

However, following the ESIA findings, the pipeline’s route did not take it into the most sensitive areas in Turkey, and in areas where there could have been ethnic tension, the Turkish government has committed itself to following highest international standards. Turkey has signed onto the Voluntary Principles on Security and Human Rights within the framework of the international agreements to which it is party; these agreements have been entered into national legislation. Turkey, Georgia and Azerbaijan have also signed a joint statement on May 16, 2003 to reaffirm their commitment to the respect of human rights.

The three countries also have cooperated on pipeline security as part of their HGA commitments to ensure security in their own territories. The BTC pipeline is buried in all three countries, which is an essential element of pipeline security. All three states desire to prove to the international community that they will indeed be able to provide security, while simultaneously respecting internationally acknowledged human rights principles.

For Turkey, transforming its image as a human rights violator into one of a state that assures its security while conforming to international standards is also crucial as it proceeds with its EU accession talks, expected to start in October 2005.

Impact on Foreign Relations

By fundamentally altering the Central Eurasian energy architecture, the BTC project, together with a parallel gas pipeline, has had an enormous impact on Turkish relations with all the key actors in the region: the South Caucasus states (Azerbaijan, Georgia and Armenia), the Central Asian republics, the EU, Russia, Iran and the US.

In developing the pipeline, Turkey has formed a strategic partnership with Azerbaijan and Georgia that will tie the three countries more closely together over the course of the next four decades. This long-term linkage has caused all three states to be more cautious in their mutual interaction. Even at times of particularly harsh economic or political disputes, leaders have been trying to resolve them quickly. Thanks to regular meetings in each other’s capitals, government officials from the three states have become much more familiar with one another. This familiarization process has been enhanced by a variety of additional measures, such as the extensive military and technical assistance Turkey has provided to both nations.

Azerbaijan

Throughout the ups and downs of Turkish-Azerbaijani relations in the 1990s, Turkish policy towards its related eastern neighbor has for some time been influenced by the possibility of the BTC project. In the early 1990s, when it was not clear whether the MEP would even be built at all, Turkish decision-makers acted with caution in relations with Azerbaijan, in order not to provoke a hasty “no” decision. At times, bilateral relations were so close that the leaders of the two Turkic countries would pronounce themselves to be “one nation, two states.” There were also periods of tension, but then-President Suleyman Demirel of Turkey kept bilateral relations on an even keel due to his strong personal relationship with Heydar Aliyev. Demirel, always concerned about broader strategic issues, well understood that the loss of close relations with Azerbaijan would have meant the loss of access to the Caspian and Central Asia. Thus, Ankara has refrained from involvement in Azerbaijan’s domestic affairs over the last decade, even during the latter’s contested presidential or parliamentary elections.

Turkey has also provided military training to Azerbaijan under NATO’s Partnership for Peace (PfP) program, and is a supporter of Azerbaijan’s eventual NATO membership. There have even been talks of establishing NATO bases in Azerbaijan, given that there are Russian military bases in Armenia, and given America’s post-September 11th desire to keep Azerbaijan as a key regional strategic ally. Turkey also supported Azerbaijan when in July 2001 Iranian military gunboats confronted a BP research vessel exploring the Araz-Alov-Sharg field in the Azerbaijani section of the Caspian Sea, which Iran claims as its own. The Chief of the Turkish General Staff, General Huseyin Kivrikoglu, visited Baku soon after the event. While his ostensible reason for visiting Baku was the Azerbaijani military academy graduation ceremony, the timing was such that when the show team of the Turkish Air Forces (Turkish Stars) made its display, it was perceived in Tehran (and in Yerevan) as a clear signal that Turkey was standing by Azerbaijan.

Georgia

Turkish relations with Georgia have also been very positively affected as a result of the BTC project. Following the breakup of the Soviet Union, Turkish political leaders were at first only interested in the Turkic and Muslim states of the region and did not pay much attention to mainly Christian Georgia. The General Staff, on the other hand, considered this country strategically important as a key buffer zone with Russia, its Cold War enemy. It quickly realized that any instability in Georgia would have a strongly negative impact on Turkey’s ability to get to Azerbaijan and Central Asia, and could draw in Russia and NATO as well.

Considered to be the “weak link” in the East-West corridor, Georgia’s stability and security was critically important to the success of the BTC pipeline as well.

Turkey provided training and equipment to the Georgian military and has modernized the Marneuli airbase south of Tbilisi. Together with the U.S., Turkey and Georgia have also formed a Caucasus Working Group for improved cooperation and coordination and further training for the Georgian military. Georgia has long expressed interest in NATO membership, and following the peaceful Rose Revolution in November 2003, it submitted its Individual Partnership Action Plan (IPAP) to NATO at its June 2004 summit in Istanbul.

While Turkey’s relations with both Azerbaijan and Georgia are friendly, the quality of the relations has deteriorated since 2000. Demirel was the anchor of the trilateral relations and personally was interested in the BTC pipeline as a historic project that would change the geopolitics of the region. He also had close personal relations with his two counterparts. His successor, on the other hand, has not shown any real interest in these projects and the South Caucasus beyond the requirements of his post. In addition, the foreign-policy priorities of the current Turkish government, led by Prime Minister Recep Tayyip Erdogan, lie elsewhere. Changes in leadership did not help the project in either Azerbaijan or Georgia; the death of Heydar Aliyev left a huge vacuum in Azerbaijan, while current Georgian President Mikheil Saakashvili has also not expressed great interest in the BTC project.

With the most senior government leaders in the three countries not focused on the energy and transport corridor to the same degree as their predecessors, there is also less care in keeping relations at the same level of closeness. With Turkey hoping to enter the EU, Azerbaijan still unable to move beyond the Nagorno-Karabakh dispute, and Georgia trying to normalize its relations with Russia while moving closer to the EU, it may be only natural that the East-West corridor and its key anchor, the BTC project, would not forever remain on the agenda.

Armenia

Turkey has to a large degree tied its relations with Armenia to a solution of the Nagorno-Karabakh conflict between Armenia and Azerbaijan. In the midst of the war in April 1993, Turkey closed its borders with Armenia, and despite strong pressure from the EU and the U.S., will not open them unless Armenia and Azerbaijan reach some sort of an agreement first. Currently, after many years of negotiations, the two sides are close to an agreement, in which Armenia would relinquish several territories it holds outside of Karabakh, with the region’s status to be decided at a later date.

At its inception, BTC was conceived as a Baku-Ceyhan direct pipeline, which due to reasons of geography would directly cross Armenia. Heydar Aliyev hoped to use the prospect of the pipeline crossing Armenia as an incentive for the latter to return Nagorno-Karabakh. When Yerevan refused, Azerbaijan (with support from Turkey) decided to deny Armenia integration into regional projects, and to deprive it of access to Western markets via Turkey. Clearly, Armenia has suffered a significant loss due to the fact that the Baku-Ceyhan pipeline now bypasses the country on the longer and costlier Georgian route.

Armenia has also been left out of other East-West pipeline and commercial projects, thereby leaving it increasingly dependent on Russian and Iranian support. This has caused serious concern in Turkey, especially among strategic thinkers and senior military officers. Believing Turkish policy towards Armenia to be held “hostage” to Azerbaijan, this group believes that Turkish influence in the South Caucasus is severely handicapped. This group may yet force change in Turkish policy; however, it remains likely that until an agreement on Nagorno-Karabakh can be implemented, Ankara will not resume relations with Armenia.

European Union

The East-West pipelines are also very important for Turkey (and even Azerbaijan and Georgia) as it proceeds with negotiations to enter the EU. On the one hand, Turkey has already adopted EU environmental, social and human rights standards during the several years it has worked on the BTC and the gas pipelines. The transparency and emphasis on community development brought by the extensive engagement of NGOs in the pipeline project are already working to transform Turkish society, bringing it closer to the EU.

The EU will also directly benefit from the East-West energy corridor, as it seeks to diversify its own energy sources—not just in oil, but also in gas. Turkey is in close proximity to 70% of world’s proven gas reserves and is increasingly becoming a gas and oil hub for world markets. It is already receiving gas from Russia, Iran and North Africa and in the future will be obtaining supplies from Azerbaijan, Central Asia and even Iraq. Turkey, Greece and Bulgaria are already working on connecting their gas pipeline infrastructures to transport Caspian gas to EU markets; Austria, Hungary, Italy are just some of the countries interested in receiving gas from Turkey, thus increasing the security of their supplies.

What the East-West gas pipelines will provide the EU is gas diversification. Most European markets are controlled by the Russian gas monopoly Gazprom; there is a desire on the EU’s part to diversify, which means finding cheap and reliable alternatives. Turkey clearly wants to present just such an alternative. While many in the EU bureaucracy have not fully appreciated the importance of the Caspian and Central Asian gas for their markets, the United States has, believing that an

East-West energy corridor would tie the two regions closer to Turkey, a NATO ally and EU candidate. Increased closeness between Turkey and the Caucasus/Central Asia would assist both with the EU's energy-security goals and the region's own reform processes. The challenge for the EU is to address Russian efforts to avoid losing its monopoly power. The German firm Ruhrgaz has a strategic partnership with Gazprom that it does not wish to upset; however, some new EU members, such as the Baltic states, Poland, and Hungary, have a different kind of relationship and experience with Russia and its use of energy leverage. These countries want to see a closer partnership with Turkey (and via Turkey, with the Caspian and Middle Eastern gas producers) for their own political and energy security and independence.

Russia

Turkey's relations with Russia at times became very tense due to the BTC agreements. The Russian government perceived the BTC pipeline to be 'against' Russian interests and opposed the project. Turkey feared that Moscow would prevent the pipeline's construction; after all, Russia was actively involved in all the major conflicts in the South Caucasus (supporting the Abkhaz and South Ossetian separatist forces against Georgia and assisting Armenia in the war with Azerbaijan over Nagorno-Karabakh) and could reignite them at any time, thus scaring away international investors. Moscow backed down on its vocal opposition to the BTC pipeline only after realizing the depth of the U.S. commitment to it. In fact, while accusing the U.S. of backing the BTC for political reasons and claiming the project has no commercial viability, the Russian government rejected the Russian Lukoil company's desire to participate in the BTC project. Now that the BTC pipeline is almost complete, Turkey still hopes that some Russian oil will flow through the pipeline—not because there is need for throughput, but rather to increase regional cooperation.

The Russian opposition to BTC was taken so seriously by the Turkish government that, in order to reduce bilateral tensions, it agreed to the massive Blue Stream gas pipeline to transport 16 bcm annually of Russian gas under the Black Sea to Turkey. The argument in favor of the project was that Turkey and Russia are two giant neighbors that would gain from cooperation instead of competition. Moreover, if Russia were left out of the regional energy developments, Moscow could lash out and create instability in the weak Caucasus region. Yet, by making this concession, Turkey endangered not only the diversification of its own gas supplies, but that of the EU as well.

Since 1991, BOTAS has been planning to transport Turkmen gas through Turkey to European markets. These plans bore fruit in 1998, when Turkmenistan agreed to supply Turkey with 30 bcm of gas annually, of which 16 bcm were for domestic

consumption, and the remainder to be transported to Europe. When Azerbaijan's Shah-Deniz field's major gas reserves were discovered, Turkmenistan-Azerbaijan relations became tense as Azerbaijan was no longer merely a gas transit country, but a gas producer with its own desire to export to Turkey and to the EU. The signing of the Blue Stream gas pipeline agreement at a time when the U.S., Azerbaijan, Turkmenistan and Turkey were actively promoting a major gas pipeline to transport Turkmen and Azerbaijani gas to Turkey was seen as a brilliant move by Russia to shut Turkmenistan out of the game; there simply would not be sufficient room in the Turkish market for two major gas deliveries.

Iran

Turkey's relations with Iran were similarly tense over BTC and also over the Caspian gas pipeline. Turkey and Iran were clear competitors for the MEP, but with U.S. sanctions on Iran, multinational oil companies were unable to seriously consider Iran as an alternative. The U.S. remains opposed to investment in the Iranian energy sector, so long as that country continues sponsoring terrorism, obstructing the Middle East peace process, and developing weapons of mass destruction. Turkey also opposed such investment, albeit for different reasons. Turkey also suffered from Iranian-backed radical Islamist terrorism, and offered Azerbaijan a much more secure option for the oil and gas pipelines. Relations over the gas pipeline became more complicated, especially after Turkey and Iran reached an agreement for a gas pipeline through Turkey to Europe—an agreement blocked by the United States. Yet, a solution was found: Turkey could receive Turkmen gas swapped for Iranian gas, so that Turkey would be unaffected by the sanctions.

United States

The BTC project and the overall East-West energy corridor were at the heart of the Turkish relations with the U.S. from mid-1990s until 2000. It is important to keep in mind that without close U.S.-Turkish cooperation, it would not have been possible to pull the multibillion-dollar BTC project together. One of the reasons behind the strong U.S. support for BTC was to ensure that Caspian oil reached markets via a stable NATO ally, instead of through Iran and/or Russia. Another reason was to help Turkey take some pressure off the already congested Turkish Straits. A third reason was to help Turkey compensate for the closure of the Kirkuk-Ceyhan pipeline following the Gulf War. In short, U.S. and Turkish interests in promoting the BTC pipeline were the same.

A second strategic project that is at the heart of U.S.-Turkish energy cooperation is the Shah-Deniz gas pipeline project to transport Azerbaijani gas again via Georgia to Turkey, and later on to Southeastern European markets. From a U.S. perspective, this project will help further solidify Turkish-Greek cooperation and

also help European countries with their own gas diversification. These two projects have brought Turkey to the center of energy politics and were seen by the U.S. as primary engines of growth for the Turkish energy sector. The expectation was that these two projects would bring in more foreign investment into Turkey's energy sector. Unfortunately, this has not materialized so far due lack of a coherent energy policy in Turkey.

Moreover, the AKP government that took office after the parliamentary elections of November 2002 showed little interest in keeping the East-West corridor on the world agenda. With Turkey's lack of visibility in the regional energy picture and its failure to keep energy issues on the bilateral agenda, Washington has gradually lost interest in the BTC project as well. For the project's long-term success, however, which hopefully will include sustainable development for Azerbaijan and Georgia, Turkey needs to work closely with the region and the U.S. to ensure ongoing active support.

Looking Ahead

While the BTC pipeline will help reduce oil tanker traffic through the Turkish Straits, Straits traffic continues to increase, posing continuing stress to Turks. A new vessel traffic system (VTS) has become operational in Turkey to provide safe passage to oil and other maritime traffic in the Turkish Straits; while the VTS system helps, it does not solve the problem.

The increasing amount of oil being transported from Russia and the Caspian has caused the Straits to become a chokepoint, stalling traffic in and out of this narrow body of water. In severe weather conditions, delays can last for up to 30 days, which is hugely costly for the oil companies.

Especially after September 11, increasing traffic of oil and gas tankers and other dangerous cargo through the Turkish Straits has forced Turkey to increase safety measures. Some of the restrictions Turkey has posed on tanker passage, especially the largest class allowed through the Straits (the Suezmax with 120,000-200,000 dead weight tons), has led oil shippers and a number of governments (especially Russia's) to claim that Turkey was politicizing the Straits. Yet most observers believe that the limit for trans-Bosporus oil traffic has been reached. When Russian oil companies increase production and when the CPC pipeline starts its second phase, traffic through the Straits may simply become paralyzed, necessitating a bypass pipeline out of the Black Sea.

Moreover, any incident that causes delays above and beyond those caused by traffic and weather would shut down the passageway for a considerable period, with devastating effects for all the countries in the region that rely on the Straits for transportation of imported goods and exported commodities. The occurrence of

such an incident, whether a major oil spill or a terrorist attack, is a serious possibility. After all, Istanbul was already hit twice by terrorists in November 2003 and is a frontline state in the war against terror. It is imperative that the Western alliance develop a strategy to ensure the safety of the Black Sea region's strategic chokepoint.

Once the East-West oil and gas pipelines are fully complete, Turkey will be a key energy terminal for oil and gas to be transported to Western markets. Following the start of the BTC pipeline later in 2005, Kazakhstan is likely to finalize agreements to send its oil from Aktau to the BTC pipeline. This would make perfect sense for the producers in Kazakhstan, especially Eni and TotalFinaElf, both of which are BTC shareholders.

As for the gas pipelines, the Shah-Deniz gas pipeline should not, and are not likely to terminate in Turkey, but to continue to European markets. Turkmenistan is once again expressing interest in sending its gas via the East-West route, and though this will not happen in the short term, it would make great commercial and political sense in the longer term for Turkmenistan, for the transiting countries, as well as for Western Europe. A Turkey that is an EU member, a close partner of Russia, and a strategic ally of the U.S. would, with the realization of these projects, have enormous political and economic pull for the South Caucasus and Central Asian countries that also want to be closely associated with the transatlantic alliance.